



**Director of
Central
Intelligence**

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SITUATION REPORT: Iran

Prime Minister Bakhtiar has had little success in securing moderate opposition support for his new government, which does not include any opposition figures. More demonstrations denouncing Bakhtiar took place in Tehran and other cities yesterday.

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even the moderate wing of the National Front, led by Mehdi Bazargan, will join Ayatollah Khomeini and Front hardliners in opposing Bakhtiar.

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the moderates still feel intimidated by Khomeini's hold on the masses. The hardline opposition leaders are willing to risk a military coup against Bakhtiar's government in order to bring down the Shah.

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Bakhtiar's cabinet consists mostly of senior civil servants and respected professional men. One second-echelon opposition figure who Bakhtiar had hoped would join the cabinet told US officials that he was totally opposed to the new government, which he characterized as too little, too late. The source reiterated that the Shah must leave the country before the moderates will break with Khomeini.

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Bakhtiar persuaded retired General Jam to become Minister of War. Jam is likely to press the Shah to give him control over the day-to-day operations of the military.

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Bakhtiar left several cabinet positions vacant and took the Interior Minister post himself. The new Minister of Foreign Affairs is Ahmad Mir-Fendereski, a former official in the Foreign Ministry who was fired in 1973 for allowing Soviet overflights to resupply the Arabs during their war with Israel.

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the Shah has decided to leave Iran "soon" for a "vacation and rest" now that Bakhtiar has formed a government.

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the Shah's close advisers, including

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Ambassador to the US Zahedi, who had been urging the Shah to stay home, now believe it would be wise for him to go. [redacted]

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These advisers expect that, if Bakhtiar does not authorize force to repress the opposition, the military will step in and crack down on its own. [redacted]

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[redacted] the military is very close to seizing power. In either case, Zahedi is said to believe the Shah should dissociate himself from the situation by leaving the country. [redacted]

Zahedi has long urged the Shah to crack down on the opposition. We believe that, if Zahedi and other hardliners in the court now favor the Shah's departure, their change probably reflects their frustration with his refusal to order a crackdown. We doubt that Zahedi expects Bakhtiar to implement the "iron fist" approach, and Zahedi probably prefers that the military do so. The Shah has still not set a departure date, and his public comments remain vague on his plans. [redacted]

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SITUATION REPORT: Vietnam-Kampuchea-China

Following the capture of Phnom Penh, the Vietnamese now control the eastern third of Kampuchea. Prince Sihanouk left Phnom Penh on Saturday and has stopped in Beijing (Peking) on his way to New York, where he will present Kampuchea's case against Vietnam to the UN Security Council. Other Kampuchean leaders, including Foreign Minister Ieng Sary, saw Sihanouk off, but their current whereabouts are unknown.

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Although some Kampuchean forces are still operating behind the Vietnamese columns, many Kampuchean main forces have disengaged and withdrawn after offering token resistance. We believe the Pol Pot regime hopes to marshal these units for a protracted guerrilla campaign against the Vietnamese. The regime will probably establish a "temporary" capital in western Kampuchea. The Kampucheans appear to have a viable military force still intact, and they presumably have stockpiled sufficient weapons and supplies in the west to maintain those forces until new supply channels can be established.

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The Thai Government has considered various contingency plans in the event of a Vietnamese takeover of Phnom Penh, but it is likely to adopt a cautious approach for the immediate future. Although the Thai have considered supporting a Khmer resistance force in western Kampuchea if a Vietnamese-controlled government is established in Phnom Penh, they are not likely to take any such action until the situation is clarified.

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The Thai have encouraged Chinese support of the Pol Pot regime, but their own involvement has been tempered by a reluctance to provoke Hanoi. During Deng Xiaoping's (Teng Hsiao-ping's) visit to Bangkok in November, the Thai agreed to let Chinese aircraft fly over Thailand en route to Kampuchea but were reluctant to allow overland transit of Chinese aid. 25X1

The Chinese are also continuing their military preparations along Vietnam's northern border. Since late December, China has substantially augmented its air, air defense, and ground forces opposite Vietnam. 25X1

Soviet media were prompt in covering the fall of Phnom Penh and lavish in their praise. The Soviet news agency TASS initially published a dispatch from Hanoi stating the Kampuchean insurgents' goals. Soon thereafter, prominent Soviet commentator Yury Kornilov said that there will be "deep satisfaction" throughout the world because the Pol Pot - Ieny Sary "clique" had resorted to genocide and was a tool of China's "expansionist policy." Radio Moscow's domestic service bluntly termed the development a "defeat" for China and complained that the Chinese are considering convoking the UN Security Council to discuss Vietnam's "mythical aggression." 25X1

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BRIEFS AND COMMENTS

ITALY: Decisive Test for Government

Prime Minister Andreotti is scheduled to present his proposed economic stabilization plan for cabinet approval this week. Failure to resolve interparty differences over the plan could bring down the government and lead to Communist demands for direct participation in a new one. [redacted]

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Two trends in particular have strained government cohesiveness in recent months. Signs of Communist vulnerability--such as losses in local elections and growing discontent in the party's working-class base--have made many Christian Democrats more reluctant to grant new concessions to the Communists in return for their continued parliamentary support of the Christian Democratic government. At the same time, the Communist leadership has come under increasing internal pressure to demonstrate that cooperation with the government produces tangible benefits for party supporters. [redacted]

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The parliamentary debate on the economic plan is shaping up as the decisive test for the Andreotti government. Christian Democrats want the plan to focus on anti-inflation measures and are likely to resist expected Communist efforts to emphasize the creation of more jobs. Compromise will be complicated by major labor contract negotiations scheduled to begin this month. [redacted]

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The absence of agreement on an alternative governing formula is a strong incentive to flexibility on both sides, however, and there are signs that the major parties are growing more inclined to make concessions. Nevertheless, it will be difficult for political leaders to dampen the crisis atmosphere that has developed. If the Andreotti government does fall, protracted negotiations centering on the question of increased Communist participation are likely--negotiations that could lead to a stalemate and a new parliamentary election. [redacted]

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RHODESIA: ZANU Activities

The Zimbabwe African National Union has infiltrated some 1,500 guerrillas into Rhodesia since early November. The Mozambican Army reportedly has agreed to provide them with more arms and may even allow some of its soldiers to join ZANU units infiltrating Rhodesia. ZANU leader Robert Mugabe appears to have strengthened his position as a result of the stepped-up operations and improved his relations with Mozambique.

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Mozambican President Machel has long urged ZANU to intensify operations inside Rhodesia to ease the pressure of Rhodesian cross-border raids into Mozambique. He had been frustrated over ZANU's lack of success on the battlefield and the inability of Mozambican forces to resist the Rhodesian raids. Machel's more favorable impression of the guerrillas' progress in the fighting may have persuaded him to give them more support and made him more optimistic about ZANU's ultimate success in Rhodesia.

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ZANU leaders apparently believe they are getting closer to assuming power in Rhodesia and are maneuvering for positions of influence in hopes of gaining top spots in a new Zimbabwe government. The ZANU leadership has been plagued by chronic personal and tribal rivalries. Mugabe may now be gaining more support within his organization because many Rhodesian blacks believe he would emerge as the eventual victor in Zimbabwe if a civil war broke out with Joshua Nkomo's Zimbabwe African People's Union. Machel's greater support for ZANU may also have strengthened Mugabe's hand.

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INDONESIA: Possible Fuel Price Increase

Indonesian consumers, particularly in the opposition, will be watching President Suharto's annual budget message today for any reduction in the government's large subsidy on domestic petroleum products. The subsidy has become increasingly expensive and has encouraged excessive consumption, which has diverted crude oil that could have been exported. Indonesian Government economists reportedly have recommended that Suharto raise domestic fuel prices by 50 percent, but the issue is politically sensitive and past increases have touched off demonstrations. [REDACTED]

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ZAIRE: Prospects for Unrest

The potential for unrest in Zaire this year is high--largely because of economic and social grievances. According to the US Embassy, however, only a large-scale upheaval in Kinshasa would present an immediate threat to President Mobutu. The capital's population is becoming progressively impoverished, but the city remains relatively calm despite heightened tensions. Factors such as fear of a replay of the rampant civil disorders of the 1960s and the innate tolerance of many Zairians lessen the possibilities for upheaval. [REDACTED]

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SPECIAL ANALYSIS

PAKISTAN'S PROBLEMS

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President Zia-ul-Haq is faced with an accumulation of political and economic problems, some of which are fast coming to a head. The country's other senior generals may soon feel prompted to replace Zia, but a new military leader would probably not be much different. In any event, the Pakistani military will probably be able, at least in the short term, to prevent serious political deterioration.

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Zia depends on the continued support of the military, and senior generals--as well as many other Pakistanis--are already unhappy with his performance. He will soon face a decision on former Prime Minister Bhutto that is almost certain to increase criticism of his rule.

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The Supreme Court has completed its hearing of Bhutto's appeal of his conviction for a political murder, and Zia's Attorney General expects it to announce its decision late this month. If the court upholds the death sentence, as it is expected to do, Zia must then decide whether Bhutto is to be executed. The Attorney General believes Zia will order the death sentence carried out.

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Some of Bhutto's followers believe his execution would bring such a strong popular reaction that Zia--and perhaps the military--would be driven from power. The government has previously thwarted attempts by Bhutto's followers to stage widespread demonstrations, and his supporters have so far not made an all-out effort to create turmoil. Should Zia opt for execution, and widespread rioting follow, his fellow generals might well see his resignation as necessary for the restoration of order.

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Zia could be removed from office, however, if he does not confirm the death sentence. Few Pakistanis are neutral about Bhutto, and many--including senior generals--feel strongly that Bhutto must be executed to prevent his returning to power. [REDACTED]

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A Civilian Government

Zia also must decide what to do about growing pressures for a return to civilian government. Both the politicians and a number of senior military officers want Army control ended, and Zia's inability to achieve this so far is a major cause of the dissatisfaction with him. Zia is reluctant to turn over power until he can be sure that the government will be honest and stable and that Bhutto's followers will have a minimal role in it. [REDACTED]

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Zia hoped to build the Pakistan National Alliance--a coalition of nine parties formed to oppose Bhutto--into a dominant political force. Bhutto, however, still has widespread popular support, and in a free election his party would probably win enough seats to make it at least an influential opposition party. [REDACTED]

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After prolonged negotiations, Zia has won the support of the Pakistan National Alliance but, in the process, the two best known figures in the Alliance withdrew their parties, a third smaller party also left, and the most important remaining party in the Alliance split, leaving Zia with the support of five small parties and a faction of a major party. [REDACTED]

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Zia has promised an election this year, but so far has not set a date. Unless he makes a firm commitment, the rift between Zia and the politicians--including those who now support him--is likely to grow. [REDACTED]

Economic Problems

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Zia is reluctant to incur the political costs of forcing Pakistan's economy to operate within its means. Last fall, he turned down a proposal of the International

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Monetary Fund that would have provided a \$70 million standby credit for balance of payments support. In exchange for financial support, Zia would have had to curb rising public spending, especially on large government subsidies for a wide range of consumer goods. [REDACTED]

Pakistan's budget for this year shows that expenditures will increase sharply because of higher food subsidies and the government's decision to speed completion of a steel mill in Karachi. [REDACTED] 25X1

Any cutback in subsidies would boost urban prices for basic foodstuffs and thus encourage increasing criticism of the government. Crop failures require large imports of high-cost wheat this year and make subsidies more important than ever. [REDACTED] 25X1

Foreign Challenges

The troubles in Iran have increased the feeling of isolation that has grown in Pakistan since last April, when pro-Communist leaders seized power in neighboring Afghanistan. [REDACTED]

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The new Afghan Government has assured Pakistan that it wants a peaceful settlement of the longstanding border dispute between the two countries. As the Pakistanis see it, however, Afghanistan's ultimate goal is the annexation of Pakistan's two western provinces. A number of public and private statements by Afghanistan's new rulers tend to confirm Pakistani worries. [REDACTED] 25X1

The Pakistanis recognize that the Afghan Government is not now in a position to move against Pakistan. The long-term threat posed by Afghan ambitions, however, adds to the general malaise in Pakistan as the country's leaders grapple with their political and economic problems. [REDACTED]

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OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

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Hungary

The government has announced price increases for several consumer goods, including an average 25-percent boost for gasoline, effective today. The increases are in line with previously announced plans to reduce or abolish many subsidies for consumer goods over the next several years. Hungary was the first country in Eastern Europe to begin periodically raising prices of selected consumer goods and has been able to do so without prompting a serious popular backlash. Wage increases have frequently offset the price rises, but none was mentioned in the official announcement on Saturday.

Kampuchea-Vietnam-China

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While in Beijing (Peking) today (see Situation Reports section), former Kampuchean leader Prince Sihanouk took pains at a press conference to dissociate himself from the domestic policies of the Pol Pot regime, but he

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said he would nonetheless proceed with his attempt to obtain UN condemnation of Vietnam's invasion. He claimed that all leaders of the regime are alive and are leading the resistance. Sihanouk contended that Chinese Vice Premier Deng Xiaoping (Teng Hsiao-ping) had promised yesterday to give Kampuchea "all types of aid" but had not said "anything precise" on the possibility of Chinese military intervention against Vietnam. [REDACTED]

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